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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission

DOCKETED

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CM

IN THE MATTER OF A CHANGE TO USE
OF THE MONTHLY THREE-MONTH
COMMERCIAL FINANCIAL PAPER RATE
AS A SUCCESSOR RATE FROM THE
MONTHLY THREE-MONTH
COMMERCIAL NON-FINANCIAL PAPER
RATE FOR CERTAIN PURCHASED GAS
ADJUSTOR BANK BALANCES AND
CUSTOMER DEPOSIT ACCOUNTS

DOCKET NO. G-00000C-06-0069

DECISION NO. 68600ORDER

Open Meeting
March 15 and 16, 2006
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest"), Southwest Page Propane Division, UniSource Gas ("UNS Gas"), Energy West Corporation ("Energy West"), Duncan Rural Services Corporation ("DRSC"), and Graham County Utilities ("GCU") are engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission. Duncan Valley Electric Cooperative ("DVEC") is engaged in providing electricity service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. For a number of years, certain utilities have used the Monthly Three-Month Non-Financial Commercial Paper Rate ("Current Rate") as the interest rate for their purchased gas adjustor bank balances and, for one utility, customer deposits.

1 3. The Commission approved this rate for use in Decision Nos. 61225 (October 30,
2 1998) and 67433 (December 3, 2004).

3 4. This rate had been regularly published by the Federal Reserve up until last year, but
4 problems with the Current Rate started in 2005.

5 5. In February 2005, the Current Rate was not published for that month. At the time,
6 the Commission Staff advised utilities using the Current Rate to simply apply the previous month's
7 rate for that one month (February 2005) where the Current Rate was not published. From March
8 2005 through November 2005, the Current Rate was published every month.

9 6. Since late November 2005, however, the Federal Reserve H.15 Statistical Release
10 has not reported any new information for the Current Rate, meaning that there is no published rate
11 for the Current Rate for the months of December 2005 and January 2006. It now appears likely
12 that any changes to the Current Rate will no longer be published.

13 7. Staff has contacted the Federal Reserve several times inquiring about the future
14 availability of the Current Rate, but the response has been limited to indicating that there has been
15 no information available to report since late November 2005 about the Current Rate.

16 8. In light of these circumstances, the question is raised regarding what interest rate
17 utilities should use on a going forward basis given the unavailability of the Commission-ordered
18 Current Rate.

19 9. While the Federal Reserve publishes a wide variety of interest rates, Staff believes
20 that in this case it would be best to replace the current rate with an interest rate that is very similar,
21 thus avoiding issues regarding impacts on ratepayers of changing to a different interest rate.

22 10. A review of interest rates indicates that the Monthly Three-Month Commercial
23 Financial Paper Rate ("New Rate") is a very similar rate. There have been no problems with the
24 New Rate not being published. Generally, the financial paper rates show much higher volume
25 activities than the non-financial paper rates, so it appears that switching to the New Rate would
26 minimize the potential for these types of difficulties in the future.

27 11. On average, since the Current Rate and the New Rate began being published in
28 1997, the average difference between the two rates is 0.027 percent, with the New Rate being

1 slightly higher. The largest monthly difference showed the New Rate to be 0.09 percent higher,
2 but for several months the New Rate was 0.01 percent lower. So, in a typical month, if the Current
3 Rate was, for example, 4.20 percent, the New Rate would be 4.22 or 4.23 percent.

4 12. While not exactly the same, Staff believes that the average differential between the
5 two rates is so small that it would have a very minimal impact on the calculation of PGA bank
6 balance interest amounts or customer deposit amounts. For example, on a hypothetical
7 \$10,000,000 PGA bank balance, a 0.027 percent difference in the interest rate would result in a
8 total interest difference of \$226 for a given month.

9 13. Utilities which use the current rate for calculating interest on their PGA bank
10 balances include: Southwest, UNS Gas, Energy West, DRSC, and GCU, as adopted in Decision
11 No. 61225 (October 30, 1998).

12 14. DVEC uses the current rate for calculating interest on customer deposits, as adopted
13 in Decision No. 67433 (December 3, 2004).

14 15. One gas utility, DRSC, is currently before the Commission with a general rate
15 proceeding where a different interest rate may be proposed than the New Rate.

16 16. Given the disappearance of the Current Rate that the Commission adopted for use
17 on the aforementioned PGA bank balances and customer deposits, Staff believes it is necessary to
18 adopt the New Rate so utilities will have an interest rate to apply. Staff believes that the New Rate
19 is a good replacement rate, as the average difference between it and the Current Rate is very small.

20 17. Staff has recommended adoption of the Monthly Three-Month Commercial
21 Financial Paper Rate for application to the PGA bank balances of Southwest Page Propane
22 Division, UNS Gas, Energy West, DRSC, and GCU, and the customer deposits of DVEC.

23 18. Staff has further recommended that if, in the current rate proceeding for DRSC,
24 Staff is proposing a specific interest rate instead of the New Rate, that the specific interest rate
25 adopted in that case replace the New Rate being adopted in this proceeding on the effective date
26 for new rates and charges designated in that rate proceeding.

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CONCLUSIONS OF LAW

ORDER

1 IT IS FURTHER ORDERED that the New Rate being adopted in this proceeding replace
2 the customer deposit rate adopted in DRSC's current rate proceeding.

3 IT IS FURTHER ORDERED that this Order shall become effective immediately.
4

5 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

6 
7 CHAIRMAN

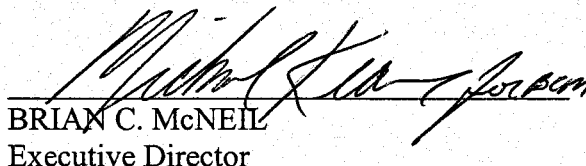

COMMISSIONER

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10 COMMISSIONER


COMMISSIONER


COMMISSIONER

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12 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto, set my hand and caused the official seal of this
Commission to be affixed at the Capitol, in the City of
Phoenix, this 23rd day of March, 2006.

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17 BRIAN C. McNEIL
18 Executive Director

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20 DISSENT: _____

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22 DISSENT: _____

23 EGJ:RGG:lhv\JG
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